

## Review of Operations

### Operating Results

**F**or the year ended 31st December 2002, Wing Hang Bank Group recorded a profit of HK\$680.7 million, compared to HK\$779.0 million in 2001. Earnings per share eased by 12.6 percent to HK\$2.32.

### Financial Review

The subdued economy in Hong Kong continued to dampen demand for loans. As a result, total advances to customers eased 3.1 percent to HK\$34.42 billion. Residential mortgages showed a decline of 11.6 percent due to intense competition and the slow property market. Continued growth has, however, been recorded in the consumer finance sector, which brought in higher yielding assets for the Bank. Respectable growth has also been recorded in vehicle and equipment finance as well as loans for use in Macau and China.

Total deposits increased by 3.1 percent to HK\$50.10 billion, resulting from the issuance of HK\$1.3 billion in retail Certificates of Deposit during the year. Successful promotions of current and savings deposits also brought about growth of 16.1 percent and 13.3 percent respectively for these lower cost accounts.

For the year ended 31st December 2002, net interest income declined 3.0 percent to HK\$1,472.2 million due to weak loan demand especially in residential mortgages, resulting in a drop of 2.3 percent in the Group's total revenue.

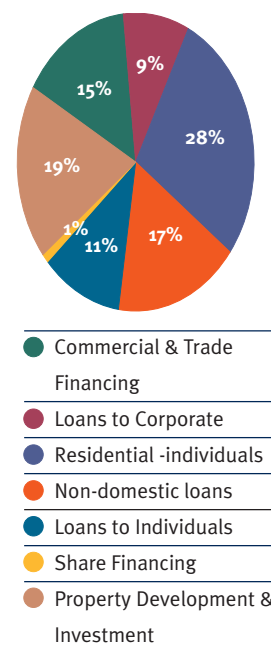
Net interest margins dropped slightly to 2.62 percent from 2.77 percent last year. Reduced margins in residential mortgages and lower yields in interest-free funds have been offset by increases in consumer finance and treasury activities.

In view of the weak demand for loans, the Bank has focused its efforts on broadening fee and commission income, which now accounts for 20.0 percent of the Group's operating income. Continued growth in wealth management services and increases in foreign exchange trading income and insurance commissions have been offset by decreases in share brokerage and credit card commissions.

The Bank has continued to pursue cost-containment efforts. As a result, expenses increased marginally by 1.2 percent to HK\$595.5 million and the cost to income ratio for the year stood at 32.4 percent.

Charges for bad and doubtful debts increased by 10.6 percent to HK\$468.0 million, primarily from consumer lending, in particular, defaults in credit card payments as well as provisions required in light of the declining value of property collateral. However, the level of non-performing loans decreased to 2.68 percent compared to last year at 3.80 percent.

### Loan Composition



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### Business Review

#### Retail Banking

The Retail Banking operation recorded a 3.5 percent increase in operating profit before provision over 2001, mainly brought about by increased business from wealth management services as well as respectable growth in consumer loans and customer deposits. The division's profitability has, however, been affected by provisions for our credit card business.

#### Loans

The property market continued to be weak despite measures taken by the Government to stabilize prices and to promote sales activities. As a result, growth in residential mortgages continued to be slow and margins remained thin.

For Wing Hang, residential mortgages, which accounted for 27.7 percent of the loan portfolio, declined 11.6 percent. Re-pricing has, however, stabilized as the Bank has decided not to compete for new business by further reducing margins.

The slow growth in residential mortgages in Hong Kong continued to be offset by increased activities in China, which saw residential mortgage financing grow 25.6 percent during the year.

#### Consumer Finance

On consumer finance, the Bank has continued to expand its personal loan activities through Wing Hang Credit Limited with the introduction of a series of tax and revolving credit products. The company has also introduced a "Negative Equity Owner Assisting Program" and a "Personal Loan Refinancing Scheme". During the year, Wing Hang Credit's loan portfolio grew 23.7 percent.

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The Bank has also extended credit facilities to small and medium enterprises (SMEs), both in Hong Kong and those with operations in China, through Wing Hang Finance Company Limited. The company has been developing its vehicle and equipment financing business by taking advantage of the significant growth of the manufacturing sector in the Pearl Delta region. During the year, the company recorded a 24.1 percent growth in these loan assets.

The Bank has slowed down the growth of its credit card business in view of rising bankruptcies and default payments. For the year ended 31st December 2002, charge-offs for credit cards stood at 14.3 percent, which was in line with the market average. Due to the tightening of our credit approval criteria and a reduction in the number of cardholders, receivables declined by 32.9 percent to HK\$310.7 million.

### Deposits

On the deposit side, total deposits increased by 3.1 percent to HK\$50.10 billion, mainly due to the increase in issuance of Certificates of Deposit. Despite a 0.9 percent decrease in customer deposits, the Bank has seen a gradual migration of more costly time deposits to savings and current accounts. Both registered an increase of over 10 percent, following the deregulation of interest rates and the low interest rate environment. During the year, the Bank issued over 20 tranches of retail Certificates of Deposit, totaling HK\$1.3 billion.

### Wealth Management, Insurance and Share Brokerage

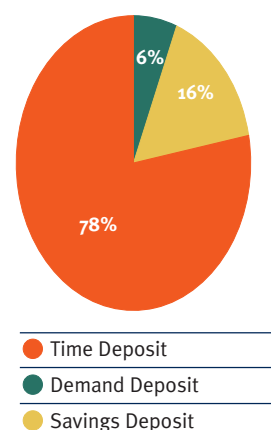
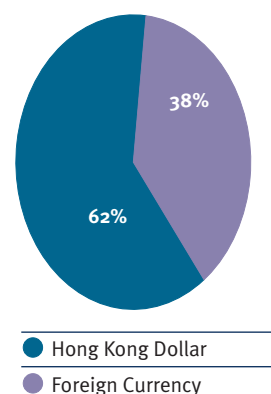
With a prevailing low interest rate environment, the Bank has introduced high-yield savings and investment alternatives for its customers through wealth management products.

During the year, we offered an array of unit trust funds, mini-bonds, retail callable CDs and equity-linked notes as well as other investment instruments. Total unit trust funds and bonds sold through the Bank exceeded HK\$790.0 million.

In keeping with our efforts to boost customer loyalty, we have taken active steps to continually improve the quality of our service. During the year, we increased the number of customer service staff in our branches. Continued on-the-job training has equipped employees to market new services and products created to suit prevailing investment conditions. Upgraded skills have also enhanced job satisfaction and career prospects for our employees.

Our ongoing service commitment is to offer a multi-channel one-stop solution to meet the various financial needs of our growing customer base. There has been a positive response to the Elite Banking concept introduced to selected customers last year. We expect such targeted value-added services should provide mutual benefits to the Bank and its customers.

### Deposit Mix



*In keeping with efforts to boost customer loyalty, we have taken active steps to improve the quality of our service.*



### Wing Hang Insurance

Wing Hang Insurance Agency and Broker achieved satisfactory performance during the year with steady growth recorded in MPF, life and general insurance business. The Bank's associated company Hong Kong Life Insurance Company Limited, which offers life insurance to the Bank's customers, achieved encouraging results in the number of policies sold.

### Wing Hang Share Brokerage

Wing Hang Share Brokerage, the Bank's share broking arm, maintained above average turnover despite a general market decline. The company's IVR (Interactive Voice Response) share trading system introduced during the year was well received by customers.

### Corporate Banking

The Corporate Banking operation recorded a 4.8 percent increase in operating profit before provision on the back of strong export growth in Hong Kong and rising GDP in China. During the year, the division recorded a significant increase in trade finance business and actively participated in a number of syndication loans and corporate finance activities. There are increased lending opportunities in China where strong economic performance and entry to the World Trade Organization continue to attract Hong Kong investors.

In May 2002, we received approval from the People's Bank of China to operate Renminbi business with foreign-funded enterprises and foreigners in China as well as to extend foreign currency services to domestic Chinese corporations operating in the Mainland. The granting of approval for our Shenzhen Branch to lend in Renminbi enables us to broaden the scope of our banking activities in China and enhance our ability to better serve our existing and potential customers.

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During the year, the Bank's Corporate Banking Division in Hong Kong, in co-operation with our Shenzhen Branch, provided credit facilities to Hong Kong manufacturers who have shifted their operations to China. It also offered project financing for Hong Kong developers who are diversifying their investments across the border. Customer relations in China is further supported by our representative offices in Shanghai and Guangzhou.

### **Treasury**

The Bank's Treasury operation recorded a 66.1 percent increase in profit before taxation as a result of the expansion of our treasury function to enhance yields for our surplus funds. The encouraging results have been achieved by investing excess liquidity in high grade investment bonds and debt securities. The Bank continues to enhance and expand Treasury capabilities to efficiently and prudently invest surplus funds.

### **Macau**

In Macau, Banco Weng Hang has continued to out-perform the local banking sector. Profits increased by 3.4 percent to 124.2 million Macau patacas, with steady growth in loans and deposits of 7.4 percent and 5.9 percent respectively. Net interest income increased slightly by 0.3 percent while fee income increased by 17.2 percent.

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